# Provincial Economic Forecast
## Taking a Scalpel to 2019 Provincial Growth Prospects

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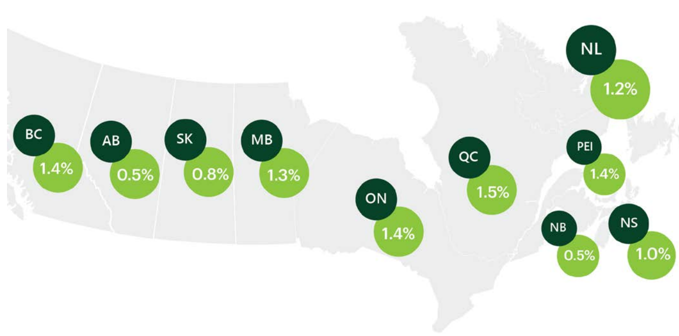
- Compared to our last projection in December, economic growth prospects for 2019 have been downgraded significantly across the nation, most notably in the Prairies and British Columbia. These adjustments, which leave most projected 2019 growth rates running below trend, largely reflect a surprisingly soft hand off into the year. Across the regional landscape, a more constructive set of growth dynamics are expected to kick in beginning in Q2 2019.
- Alberta's 2019 growth forecast has been slashed to under 1%, with a modest rebound likely on tap for 2020. Mandated oil production curtailment so far this year has yielded stronger bitumen prices. However, the blow to overall confidence from last year's price slide as well as persistent uncertainty around medium-term energy investment prospects has been larger than we had predicted in December.
- While faring slightly better than their Prairie counterpart, weakness in commodity markets over the past few quarters on the back of moderating global growth and trade uncertainty has put a near-term damper on growth prospects in both Saskatchewan and Manitoba. A modest pickup in global demand conditions later this year should set the stage for a growth uptick in these provinces closer to their respective trend rates in 2020.
- B.C.'s overall economy has started the year in good shape, but the lagged negative impact of a year-long slowdown in its key urban housing markets will become more visible in the broad spending data as 2019 progresses. Despite a sub-par year for growth, the province should still continue to boast the lowest unemployment rate among the provinces.
- A slowdown in consumer spending to start 2019 will make it difficult for the Ontario and Quebec economies to avoid a second consecutive year of growth moderation. Still, resilience in job markets and our expectation of continued decent US growth this year will limit the downside. Quebec would appear to enjoy the growth edge over Ontario, owing in part to its better fiscal position and strong housing momentum.
- In contrast to other regions, growth in the Atlantic region for this year is largely unchanged from our December view. PEI is likely to lead the pack in terms of growth, while Newfoundland & Labrador records an improvement from its tepid 2018 rate. Further modest growth performances are expected in Nova Scotia and New Brunswick.

**Provincial Real GDP Growth Forecast (2019)**




Source: TD Economics. Forecast as of March 2019.

For more details on our national forecast see our [Quarterly Economic Forecast]

## British Columbia

After several years of blockbuster growth, B.C.'s economy is estimated to have slowed to a still-decent 2% in 2018. An extended housing market correction and a likely moderation in consumer spending are expected to fuel a further downshift in 2019. Still, in light of healthy investment intentions, strong labour markets, and decent public finances, growth in the province should remain above the national average over the next two years, extending an impressive trend that has been in place since 2014.

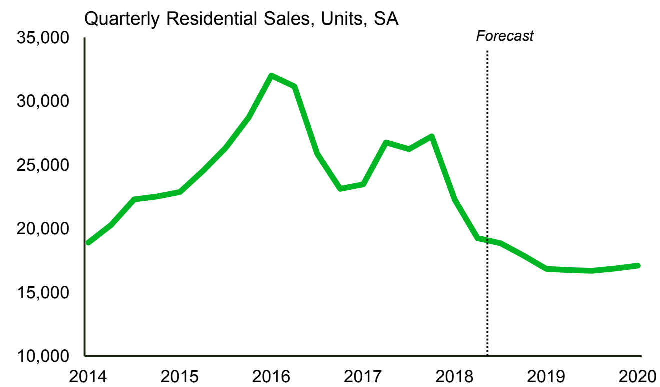
B.C.'s deepening housing market slowdown is likely to put a larger damper on growth this year. The province's housing market has been the most hard-hit (Chart 1) by the implementation of tighter mortgage rules, rising interest rates, and B.C. government policy measures. Resale activity declined a disappointing 25% in 2018, and the market has shifted well into buyer's territory. Housing demand is likely to stabilize later this year – albeit at low levels. Nevertheless, loose market conditions are likely to lead to price declines, with only a muted uptick likely in 2020.

The correction underway is expected to become more visible in consumer-oriented data in 2019. That said, household spending is likely to remain resilient. British Columbia's labour markets are undisputedly the strongest in the country. Wage growth, which has been healthy, will receive an added boost from scheduled minimum wage increases. These conditions will continue to provide support to household spending in the face of rising debt-servicing costs.

At the same time, non-residential investment should partially counter weaker homebuilding. Construction on the LNG Canada terminal and the Costal GasLink pipeline should deliver a substantial boost to growth, with the bulk of the impact expected in 2020 and 2021. Statistics Canada's Capital and Repair Expenditure survey placed B.C. at the top for 2019 (Chart 2). Combined with decent past performance and the above projects the 12.9% increase in intentions is a sign that confidence is strong in the province.

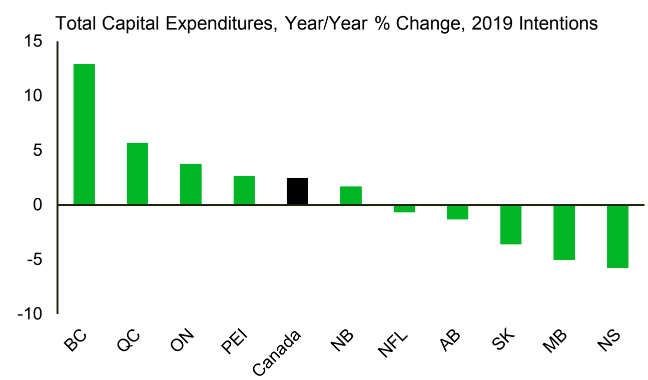
Meanwhile, B.C.'s government finances still lead the country. The FY2019-20 budget contained minor changes, with an emphasis on continued surpluses. Capital expenditures on education, healthcare, and transportation infrastructure will add modestly to debt, but should support growth while keeping the taxpayer-supported debt/GDP ratio near 16%.

**Chart 1: British Columbia's Resale Market was Hard Hit**




Source: CREA, TD Economics. Forecast by TD Economics as of March 2019

**Chart 2: British Columbia Topped the Country for 2019 Investment Intentions**




Source: Statistics Canada,TD Economics

**British Columbia Economic Forecasts**
[ Annual average % change, unless otherwise noted ]

| | 2018 | 2019 | 2020 |
|---|---|---|---|
| Real GDP | 2.0 | 1.4 | 2.0 |
| Nominal GDP | 4.0 | 3.4 | 4.2 |
| Employment | 1.1 | 2.3 | 0.6 |
| Unemployment Rate (%) | 4.7 | 4.6 | 4.7 |
| Housing Starts (000's) | 40.9 | 38.2 | 34.9 |
| Existing Home Prices | 0.9 | -5.1 | 2.2 |
| Home Sales | -24.5 | -14.2 | 5.1 |

Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics

## Alberta

Alberta's recovery from the 2014-15 oil shock has suffered a setback. Restraints on oil production, a soft capital spending outlook and a deteriorating domestic spending picture have led us to slash the province's 2019 growth outlook to 0.5%. A continued rebalancing in oil markets points to a pickup in the pace of expansion in 2020, but the rebound is expected to be somewhat modest.

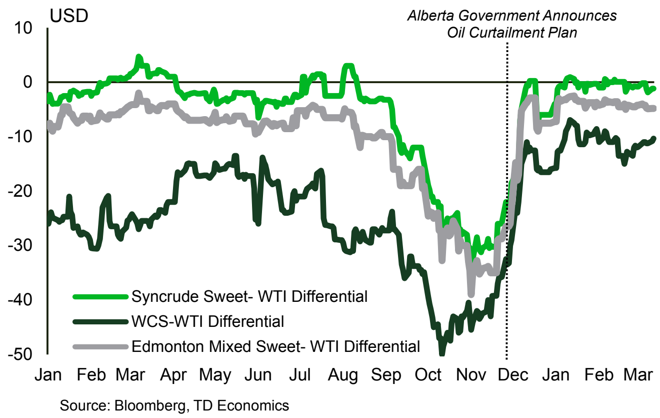
On the positive side, the government's oil curtailment plan appears to have delivered on its intended effects, as inventories have improved and oil prices rebounded (Chart 1). Nevertheless, oil transportation constraints remain a medium-term challenge. Adding insult to injury, Enbridge announced this month that the completion of its Line 3 expansion, which had been expected to start operations by the end of 2019, has been delayed until 2020H2.

This uncertainty is leaving its mark on other areas of the economy. Employment growth in the province has slowed to a crawl in recent months, leaving the unemployment rate at 7.3%, the highest outside of the Atlantic region (Chart 2). At the same time, a recent upward trend in debt-servicing costs is putting a further damper on consumer confidence and spending, especially with Alberta's households being the most highly indebted. Reflecting this pressure, the number of consumer insolvencies, while still at moderate levels, has been rising. Caution is also visible in the province's resale housing market, where market conditions have continued to slacken. Housing demand should reach a more solid footing in 2020, though some further downward price pressures are anticipated.

Despite the challenging growth environment, we take some comfort in the recent 2019 Capital Repair and Expenditures Survey that showed a strong increase in manufacturing investment intentions, led by chemicals manufacturing. The province's Petrochemical Diversification Plan has also resulted in final investment decisions for large capital projects, which should provide a boost to both non-residential construction and manufacturing activity.

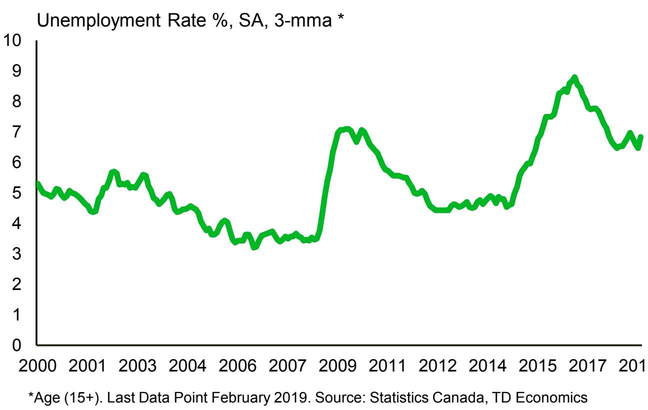
Meanwhile, the Alberta government's third quarter fiscal update encouragingly showed a lower than expected deficit for FY2018-19. Nevertheless, the deteriorating economic outlook for 2019 represents a key risk to both further near-term progress in deficit reduction and to meeting its zero deficit target by FY2023-24.

**Chart 1: Alberta's Oil Price Benchmarks Held Up Well Following the Curtailment Announcement**




Source: Bloomberg, TD Economics

**Chart 2: Alberta's Unemployment Rate has Remained Stubbornly High**




*Age (15+). Last Data Point February 2019. Source: Statistics Canada, TD Economics

**Alberta Economic Forecasts**

[ Annual average % change, unless otherwise noted ]

| | 2018 | 2019 | 2020 |
|---|---|---|---|
| Real GDP | 2.1 | 0.5 | 2.4 |
| Nominal GDP | 3.6 | 2.2 | 5.1 |
| Employment | 1.9 | 0.1 | 1.3 |
| Unemployment Rate (%) | 6.6 | 7.1 | 6.8 |
| Housing Starts (000's) | 26.2 | 22.9 | 25.7 |
| Existing Home Prices | -2.4 | -3.5 | -0.6 |
| Home Sales | -7.2 | -6.0 | 5.8 |

Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics

## Saskatchewan

Saskatchewan's economy is expected to have recorded sub-par growth of 1% in 2018, falling below the national average for a fifth consecutive year. While an improvement in oil prices from their lows in late 2018 will limit the potential for further near-term deterioration, a return to more normal economic growth is unlikely before next year.

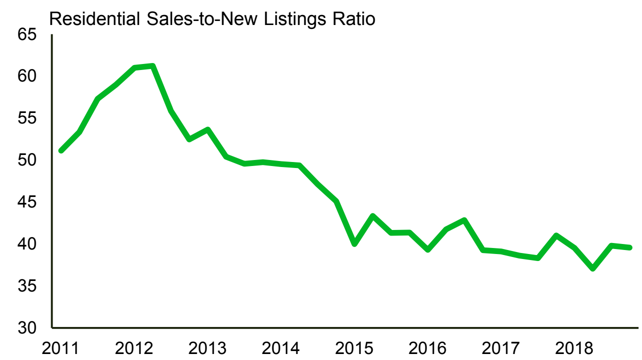
A substantial portion of Saskatchewan's economy remains sensitive to global and domestic resource prices. Heavy oil prices have improved notably since the announcement of Alberta's curtailment plan, benefiting incomes for companies and governments. Still, the lack of progress on pipeline projects, and the recently-announced Line 3 delay will continue to weigh on confidence in the sector, and thereby on capital spending. At the same time, Saskatchewan's uranium sector is still caught in an elongated period of global price sluggishness. Indefinite closures and production shutdowns remain at the province's McArthur River mine, with no signs of resumption in the near future.

Our forecast incorporates relatively steady performance in the province's agriculture sector despite subdued global crop prices. A relatively weak loonie in the mid-70s (US cents) is expected to provide some support to farm activities. Over the medium term, farmers are expected to benefit from export market diversificatoin through newly-implemented CPTPP and CETA trade deals. Within the potash sector, production is expected to expand modestly over the forecast period on the back of firming global demand.

Meanwhile, the province's labour market performance has been tepid. In response, households have remained cautious, with retail sales declining in both the fourth quarter of last year and in 2018 as a whole. Additionally, the province's housing market remains oversupplied, as evidenced by a low sales-to-listings ratio (Chart 1). This imbalance is expected to fuel a modest drop in home prices over the next few years.

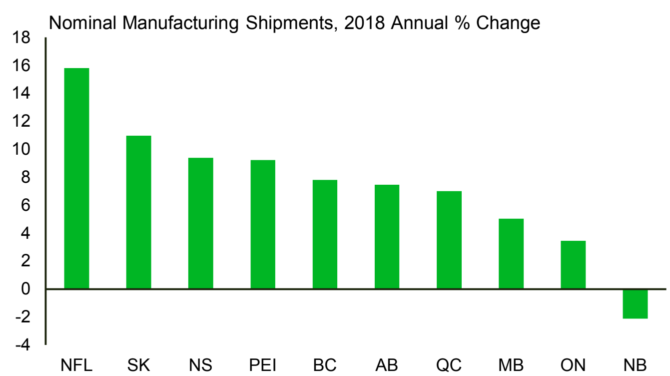
One area that has been a relative bright spot is manufacturing. Manufacturing sales recorded one of the more impressive performances among the provinces (+11% in 2018), led by food and fabricated metals manufacturing. Exports were also decent, up more than 11% in 2018. While past performance is not necessarily and indicator of things to come, we expect this sector to continue to fare well in the coming months, supported by continued US expansion.

**Chart 1: Saskatchewan's Housing Markets Remain in Buyer's Territory**




Source: CREA, TD Economics

**Chart 2:Saskatchewan's Manufacturing Sales were a Bright Spot in 2018**




Source: Statistics Canada, TD Economics

**Saskatchewan Economic Forecasts**

[ Annual average % change, unless otherwise noted ]

| | 2018 | 2019 | 2020 |
|---|---|---|---|
| Real GDP | 1.0 | 0.8 | 1.2 |
| Nominal GDP | 2.8 | 2.6 | 3.6 |
| Employment | 0.5 | 0.9 | 0.6 |
| Unemployment Rate (%) | 6.1 | 6.0 | 6.1 |
| Housing Starts (000's) | 3.6 | 2.5 | 4.1 |
| Existing Home Prices | -2.3 | -1.8 | -1.3 |
| Home Sales | -7.1 | 1.6 | 4.6 |

Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics

## Manitoba

Manitoba's economy likely expanded at a respectable 1.6% rate in 2018, backed by strong manufacturing and export activity. Rising business investment also provided support, as non-residential spending was lifted by new construction and expansion work in the food processing sector. Not to be outdone, homebuilding activity remained healthy last year, losing only a step from 2017's impressive pace. In contrast, consumers were cautious, with retail spending falling on a real basis for the first time since 2012.

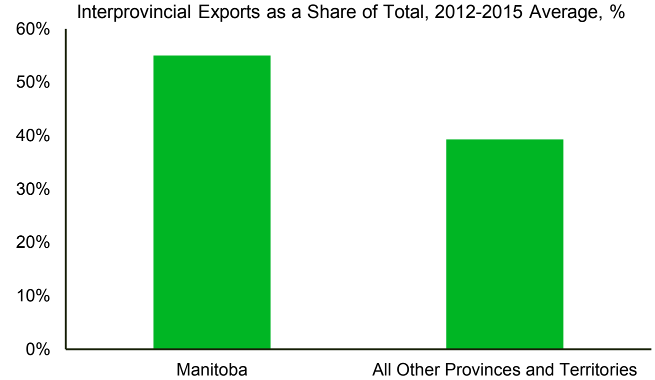
Peering ahead, economic growth in Manitoba should cool considerably this year, before some recovery takes place in 2020. The near-term outlook for the mining sector is weak, with the closures of the Reed Lake and Birchtree mines last year set to push output lower in 2019. What's more, softer U.S. growth should weigh on international exports. The outlook for interprovincial exports has also been downgraded, given more muted growth prospects for other provinces. This last point is particularly important for Manitoba, where interprovincial exports account for about 50% of its overall out-bound shipments.

Population growth has cooled considerably from its 2016 peak, driven by a slower intake of international migrants. More moderate household formation is expected to constrain homebuilding activity over the next few years. Housing markets in Manitoba appear oversupplied in general, as price growth is modest and unsold new housing inventory is climbing. This makes for a more challenging backdrop for homebuilders.

In the non-residential sector, Manitoba Hydro's massive projects have boosted capital spending in recent years. However, the completion of the large-scale Bipole III transmission line last year removes a significant source of support for construction output. Fortunately, ongoing work on the enormous Keeyask hydroelectric generating station will cushion the blow.

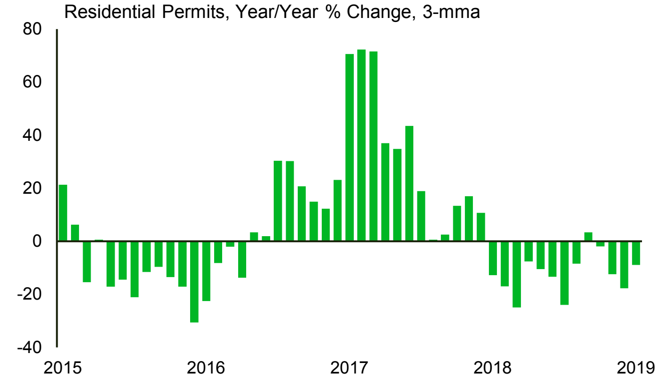
Job creation has strengthened in the past few months and is expected to pickup in 2019 relative to last year. In addition to decent income prospects, consumers will benefit from a 1 ppt reduction in the PST starting in July. However, the recent budget made it clear that deficit reduction remains a top priority for the government. In this vein, government spending is projected to remain modest this fiscal year, with further restraint likely thereafter.

**Chart 1: Other Provinces Are an Important Destination for Manitoba's Exports**




Source: Statistics Canada, TD Economics

**Chart 2: Flagging Building Intentions Point to Slower Homebuilding in Manitoba**




Source: Statistics Canada, TD Economics

**Manitoba Economic Forecasts**

[ Annual average % change, unless otherwise noted ]

| | 2018 | 2019 | 2020 |
|---|---|---|---|
| Real GDP | 1.6 | 1.3 | 1.7 |
| Nominal GDP | 3.5 | 3.1 | 3.9 |
| Employment | 0.6 | 1.6 | 0.8 |
| Unemployment Rate (%) | 6.0 | 5.5 | 5.5 |
| Housing Starts (000's) | 7.4 | 5.7 | 5.5 |
| Existing Home Prices | 1.2 | 0.4 | 3.3 |
| Home Sales | -5.9 | 4.3 | 3.4 |

Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics

## Ontario

Ontario's respectable overall growth rate in 2018 – estimated at around 2% – masked a tale of two halves. In the first six months of the year, the economy likely turned in above-trend rate of expansion. However, amid the triple headwinds of rising borrowing costs, macroprudential housing measures and heightened global uncertainty, we reckon that growth slowed to a sub-trend pace in 2018H2. The soft momentum entering into 2019 underpins our expectation of a sub-par 1.4% growth turnout this year. In 2020, the economy is likely to record a modest improvement close to its estimated longer-term running speed.

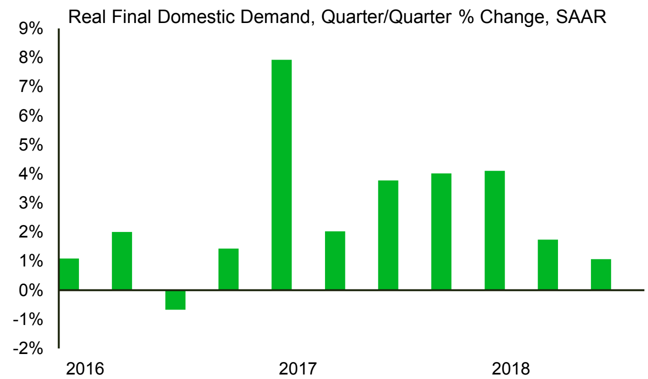
In light of elevated debt levels and recent increases in borrowing costs, consumer spending appears to be settling in to an extended period of modest gains. Job creation in the province has begun the year on fire, and our expectation of continued favourable employment conditions should prevent a weaker spending outcome. Supported by inflows of economic migrants, Ontario's adult population has been growing at a 16-year high, helping to grease the wheels of the province's job market and overall economy.

Business investment slackened significantly in 2018H2 as falling machinery and equipment investment offset rising outlays for non-residential structures. Looking ahead, we expect capital spending to pick up, partly reflecting improved financial conditions to start the year as well as recent federal and provincial tax measures put in place to incent capital spending. Further, businesses are expected to respond to growing labour shortages through increased automation.

Ontario has been home to a two-speed housing market, with Toronto's overvalued market a notable soft spot while regions outside of Toronto hold up better. In fact, markets outside of Toronto remain tight. The rising population and relatively stable rate environment projected this year should help the Toronto market gain some traction later this year, though price gains are likely to remain modest. On the supply side, homebuilding should hold up reasonably well this year before easing somewhat in 2020.

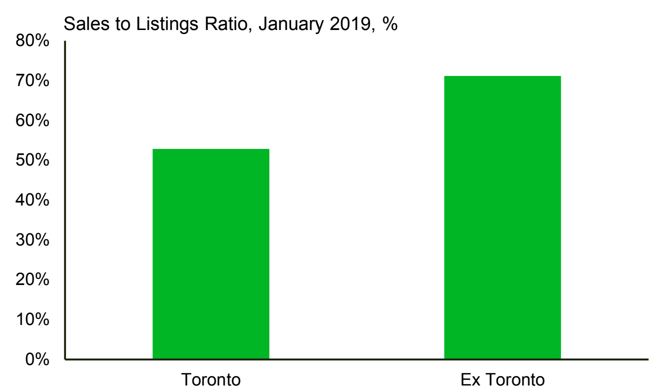
Uncertainty around how the government plans to address its deficit (of just under 2% of GDP) in the upcoming 2019 budget is a wild card for the outlook. A drawn out plan to balance the budget would lessen the near-term economic impacts but raise the province's longer-term vulnerability to economic and/or financial surprises.

**Chart 1: Rising Borrowing Costs, Macroprudential Regulations Weighing on Domestic Demand**




Source: Ontario Ministry of Finance, TD Economics

**Chart 2: Tighter Conditions Prevail in Housing Markets Outside of Toronto**




Source: CREA, TD Economics

| Ontario Economic Forecasts [ Annual average % change, unless otherwise noted ] | 2018 | 2019 | 2020 |
|---|---|---|---|
| Real GDP | 1.9 | 1.4 | 1.7 |
| Nominal GDP | 3.6 | 3.4 | 3.8 |
| Employment | 1.6 | 2.0 | 0.6 |
| Unemployment Rate (%) | 5.6 | 5.7 | 5.8 |
| Housing Starts (000's) | 79.4 | 74.4 | 73.9 |
| Existing Home Prices | -1.8 | 1.4 | 3.5 |
| Home Sales | -13.4 | 4.8 | 4.5 |

Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics

## Québec

Quebec's economy has continued to perform well. Indeed, real GDP likely expanded at an approximate 2% pace in 2018, faster than the Canadian rate. Bucking the national trend, the provincial economy likely managed to sustain much of its solid growth momentum in the latter part of 2018 despite the confidence-sapping effects of heightened global financial market turbulence. Peering ahead, Quebec won't sidestep the national trend towards slowing growth. However, it is expected to be among only a few provinces where the pace of expansion is likely to hold above its estimated trend rate.

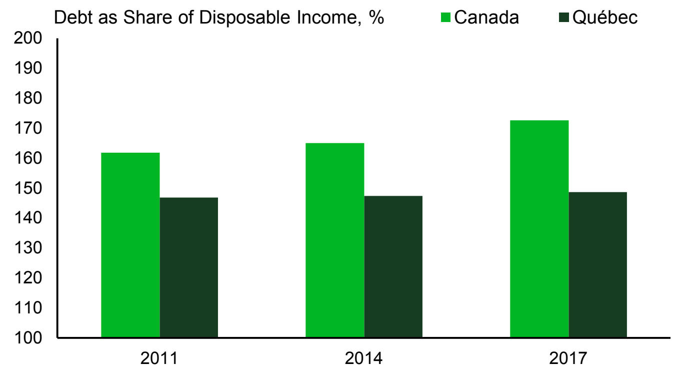
Consumer spending in Quebec is projected to hold up relatively well despite the dampening effect of higher borrowing costs over the past 18 months. Household spending has been boosted by a mix of buoyant labour markets and continued upward momentum in home sales. Moreover, households in the province are comparatively less indebted than other large provinces and are saving at a relatively high rate. This makes them better positioned to withstand higher interest rates and income shocks.

Labour shortages remain an issue in the province and are likely being exacerbated by the provincial government's policy to reduce immigration levels by 20% this year. These shortages should restrain growth as firms struggle to find the workers necessary to keep up with demand.

At the same time, however, these same shortages appear to be incenting new equipment investment. Looking forward, we expect that non-residential capital spending will remain a strong growth driver, as businesses respond to elevated capacity pressures, expanding domestic demand, and continued U.S. expansion. The CUSMA free trade agreement is also supportive as it removes a significant source of uncertainty for the trade outlook. What's more, the provincial government has introduced policies aimed at encouraging investment, including measures to accelerate the depreciation of commercial property and a capital cost allowance of 30% for certain investments.

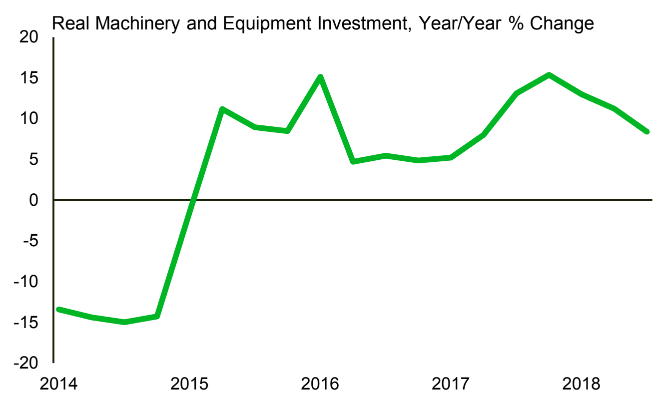
Housing demand continues to hold up well, supported by relatively firm job market conditions and a rising population. These factors are expected to continue to support home sales and starts going forward. Price growth should also be relatively strong, particularly given ultra-tight conditions in resale markets. For instance, in Montreal, the sales-to-new-listings ratio was at 80% in January – the highest since at least 2000.

**Chart 1: Households Are Less Indebted in Quebec**




Source: Statistics Canada, TD Economics

**Chart 2: Capital Spending on Solid Footing in Quebec**




Source: Institut de la Statistique du Québec, TD Economics

**Québec Economic Forecasts**

[ Annual average % change, unless otherwise noted ]

| | 2018 | 2019 | 2020 |
|---|---|---|---|
| Real GDP | 2.0 | 1.5 | 1.5 |
| Nominal GDP | 3.6 | 3.5 | 3.6 |
| Employment | 0.9 | 1.3 | 0.5 |
| Unemployment Rate (%) | 5.4 | 5.4 | 5.6 |
| Housing Starts (000's) | 46.8 | 46.1 | 43.2 |
| Existing Home Prices | 5.3 | 4.5 | 3.0 |
| Home Sales | 4.8 | 9.0 | 3.5 |

Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics

# New Brunswick

After solid, above-trend growth in 2016 and 2017, New Brunswick's economy is expected to have slowed to a more modest 0.9% rate in 2018. The province's demographic issues are nothing new, and are expected to continue to weigh on labour force growth. However, in recent months, cyclical factors, most notably a downturn in global manufacturing, have placed additional downward pressure on the province's near-term growth prospects. Accordingly, we look for another year of sub-1% expansion in New Brunswick in 2019.

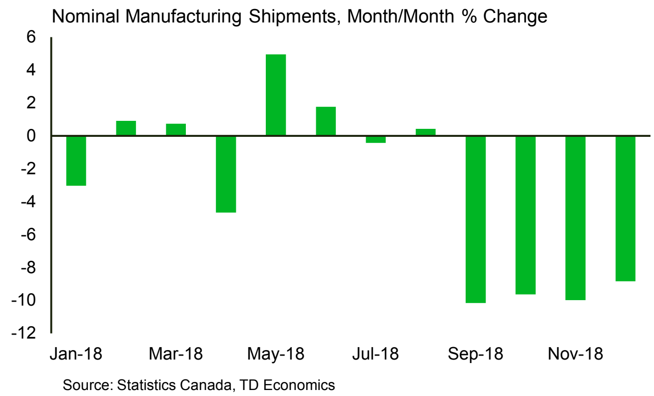
New Brunswick's manufacturing sector got caught in the grips of a synchronous slowdown in global supply chains to close out last year. A dramatic 24% fourth-quarter slump in manufacturing sales left shipments down a disappointing 2.1% in 2018 as a whole (Chart 1). Downward momentum to start the year in manufacturing and exports will weigh on the 2019 outlook. Still, we expect to see a moderate rebound in export activity starting in the second quarter in tandem with a pickup in the global economiy. The export sector also stands to benefit from reduced trade uncertainty once the CUSMA is passed into law. At the same time, the Canada-EU trade agreement (CETA) should support the diversification of its export markets.

Until the economy begins to gain traction, New Brunswick's labour market will remain stuck in neutral following a lackluster performance in 2018. Owing in large part to a declining labour force, the unemployment rate has remained near 8% (Chart 2), a level consistent with historical norms. A strengthening in sentiment in the manufacturing and export sectors, combined with ongoing strength in the business services sector, should feed through to a modest uptick in hiring in the second half of this year.

Meanwhile, the province's housing market has been a relative bright spot. After turning negative in 2014, population growth has moved into positive territory, fuelled by faster immigration. This has spurred home sales and reduced rental vacancy rates. Expectations of positive home demand should help support price growth.

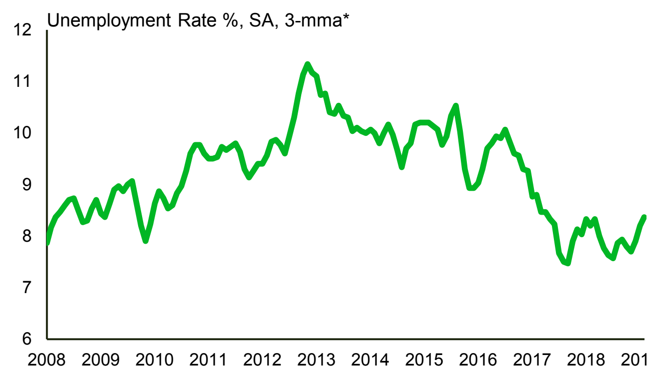
The government's third quarter update showed a modest surplus in the current fiscal year, notably better than the expected deficit revealed in the budget plan. Still, New Brunswick's elevated debt/GDP ratio and spending pressures related to a rapidly aging population remain key fiscal vulnerabilities facing the province.

**Chart 1: New Brunswick's Manufacturing Sales Tumbled in 2018, Especially in Q4**




Source: Statistics Canada, TD Economics

**Chart 2: New Brunswick's Unemployment Rate Edging Up, but Remains Close to Historical Norms**




*Age (15+). Last data point February 2019. Source: Statistics Canada, TD Economics

**New Brunswick Economic Forecasts**

[ Annual average % change, unless otherwise noted ]

| | 2018 | 2019 | 2020 |
|---|---|---|---|
| Real GDP | 0.9 | 0.5 | 0.8 |
| Nominal GDP | 1.9 | 2.4 | 3.0 |
| Employment | 0.3 | 0.1 | 0.0 |
| Unemployment Rate (%) | 8.0 | 8.3 | 8.3 |
| Housing Starts (000's) | 2.3 | 1.6 | 1.9 |
| Existing Home Prices | 5.9 | 4.0 | 4.2 |
| Home Sales | 1.5 | 2.1 | 3.2 |

Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics

## Nova Scotia

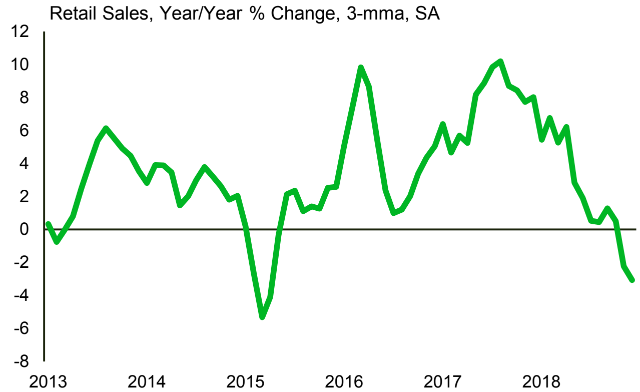
2018 was a decent year for Nova Scotia's economy. Real GDP likely expanded at a 1.2% rate – a touch slower than 2016 and 2017 but slightly faster than the province's 10-year average of 0.9%. The solid expansion stateside, coupled with rising demand from China supported exporters, helping manufacturing sales surge about 10%. Elsewhere, rising employment and strong population gains lifted home sales and prices, while builders broke ground on the largest number of new homes since 2006. However, activity was weaker in other segments of the economy, as retail spending advanced at a mere 1% rate and energy sector output lagged. Peering ahead, another few years of modest expansion is likely in the offing for Nova Scotia, with GDP projected to expand at about a 1% average pace in 2019 and 2020.

Within the export sector, the shuttering of the Sable and Deep Panuke offshore natural gas projects is expected to weigh on overall energy output this year while more moderate global growth is likely to cool export demand. These factors will be somewhat offset by a ramp up in production from the Touquoy gold mine as well as further gains in tourism activity on the back of a competitive Canadian dollar. In 2020, decommissioning work on the Sable and Deep Panuke projects should lift capital spending, and in turn help to propel overall real GDP growth modestly higher. The proposed Goldboro LNG project continues to be a wildcard for the outlook and a final investment decision on the $8 billion project is anticipated sometime this year. Suffice to say, our forecasts would receive a notable lift if the project goes ahead.

Firm labour market momentum last year has carried over into 2019, with the unemployment rate dropping to a record low in January. Looking ahead, Nova Scotia's labour market performance should remain relatively favourable, boding well for a gains in both household spending and home prices over the forecast period. However, rising costs of servicing debt as a result of recent interest rate increases will continue to cut into discretionary incomes and spending in 2019.

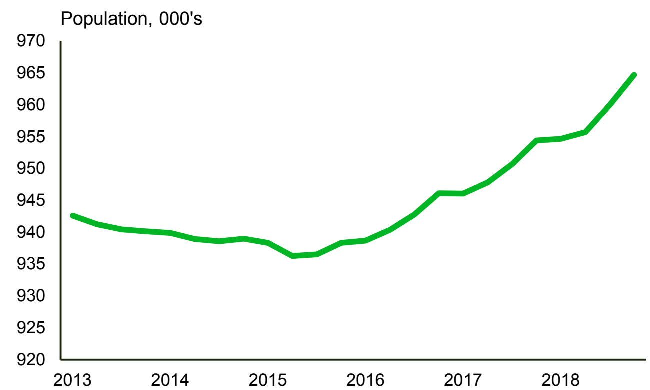
Nova Scotia's population continues to expand at a firm pace, underpinned by rising immigration and a healthy intake of foreign students. In addition to resale activity, a rising population will provide support to housing starts. However, maintaining last year's pace of homebuilding activity looks challenging given elevated levels of unsold inventory.

**Chart 1: Rising Borrowing Costs Have Tempered Consumer Spending in Nova Scotia**




Source: Statistics Canada, TD Economics

**Chart 2: Nova Scotia's Population is Risnig Sharply**




Source: Statistics Canada, TD Economics

**Nova Scotia Economic Forecasts**

[ Annual average % change, unless otherwise noted ]

| | 2018 | 2019 | 2020 |
|---|---|---|---|
| Real GDP | 1.2 | 1.0 | 1.2 |
| Nominal GDP | 2.7 | 2.8 | 3.1 |
| Employment | 1.5 | 1.6 | -0.2 |
| Unemployment Rate (%) | 7.6 | 7.0 | 7.3 |
| Housing Starts (000's) | 4.8 | 4.1 | 4.0 |
| Existing Home Prices | 3.2 | 2.9 | 2.5 |
| Home Sales | 5.3 | -4.6 | 3.3 |

Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics

## Prince Edward Island

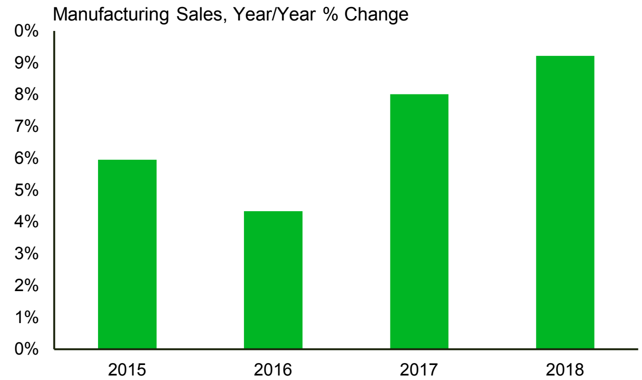
Economic growth has been running pretty hot in PEI. The scorching 3.5% expansion in 2017 was likely followed up with very a strong 2.5% outturn last year – making PEI one of the fastest growing provinces in Canada. Strong population growth has catalyzed this outperformance, supporting home sales and consumer spending. Indeed, retail sales advanced by about 4% last year – nearly the strongest pace in the entire country. The external backdrop has also supported the economy, with robust U.S. demand and a competitive dollar pushing manufacturing sales higher in 2018. Consistent with this economic strength, the provincial government is on track to record its second straight budget surplus in FY 2018/19. This marks a significant change from the deficits run during the prior 10 years.

Despite a strong year overall, the economy's momentum cooled in the fourth quarter of 2018, as employment moderated, retail spending eased and wholesale trade retrenched This late-year cooldown is consistent with our view last December that called for normalization in the pace of growth over the next two years. Indeed, we expect the economy to expand at a 1.4% average pace in 2019 and 2020, a hair below its long-term trend. However, this softer pace of expansion should still be enough to keep the unemployment rate relatively low.

Slower employment growth should weigh on household spending gains, as will recent increases in borrowing costs. However, households are carrying relatively low levels of debt, which we anticipate will blunt the impact of higher rates on spending. With US and global growth likely embarking on a softer trajectory this year relative to last, manufacturing output is expected to moderate in tandem. The softer global backdrop should also put a damper on tourism after the industry enjoyed a banner year in 2018.

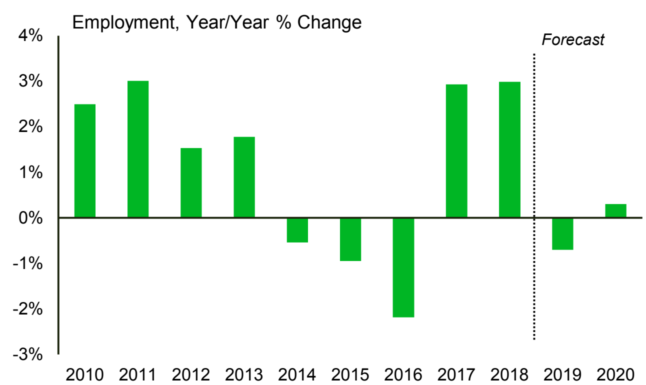
With international migrants leading the charge, PEI's population expanded at a solid pace in 2018. Fueled by this growth, homebuilding put in a strong performance last year. These gains have also allowed the province to get younger, as immigrants tend to be a relatively youthful age cohort. Still, population growth did ease up a bit in the second half of 2018. And, with the termination of the entrepreneur Provincial Nominee Program in late 2018, gains in the number of Islanders are likely to slow further going forward. This is another factor poised to take some of the wind out of the economy's sails.

**Chart 1: Solid U.S. Demand Underpinned PEI Manufacturing Activity in 2018**




Source: Statistics Canada, TD Economics

**Chart 2: Falling Employment To Keep a Lid on Consumer Spending in PEI**




Source: Statistics Canada, TD Economics

| P.E.I. Economic Forecasts [ Annual average % change, unless otherwise noted ] | | | |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| Real GDP | 2.5 | 1.4 | 1.3 |
| Nominal GDP | 4.4 | 3.2 | 3.4 |
| Employment | 3.0 | -0.7 | 0.3 |
| Unemployment Rate (%) | 9.4 | 9.6 | 9.5 |
| Housing Starts (000's) | 1.0 | 0.9 | 1.1 |
| Existing Home Prices | 4.5 | 3.4 | 3.2 |
| Home Sales | -4.5 | 1.1 | 5.1 |

Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics

## Newfoundland & Labrador

After turning in only marginal growth in 2017, Newfoundland & Labrador's economy is estimated to have contracted modestly last year, placing it at the bottom of the provincial leaderboard for the second straight year. Last year's pull back was not unexpected, as it largely reflected the temporary impact of a switch away from highly labour-intensive construction stage to the production stage of the Hebron and the Muskrat Falls capital projects. We anticipate growth to pick up in 2019 and continue in 2020, supported in part by a steady ramp up of oil production as well as work on a number of smaller-scale capital projects.

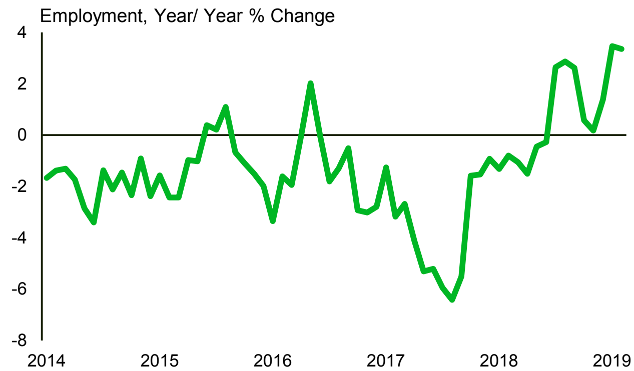
Encouragingly, even as output shrank, the province turned in positive employment growth for the first time since the pre-2014 oil boom (Chart 1). The slight upturn in jobs helped to push the unemployment rate down to 11.8%. However, part of the drop in unemployment was attributable to another decline in the labour force. Additionally, the composition of job gains in 2018, which was centered primarily in part-time jobs, left a lot to be desired.

The mix of unfavourable demographics and lackluster labour markets is expected to be reflected in another subdued year for consumer spending in 2019. Retail activity ended 2018 on a sour note, falling 1% in the fourth quarter (Q/Q). Also reflecting these headwinds, the province's housing market is likely to continue to underperform. Indeed, its historically low sales-to-listings ratio is evidence of oversupply and a market that is clearly in buyer's territory (Chart 2).

On the positive side, the province's natural resource sector is projected to turn in a solid performance this year., supported in part by a better-than-expected price performance for Brent crude to begin 2019. Oil production is likely to continue ramping up in the Hebron offshore field. The Bay du Nord framework agreement is a sign of confidence in the province's oil sector and bodes well for more exploration in its offshore fields. Still, a final investment decision isn't expected before 2020.

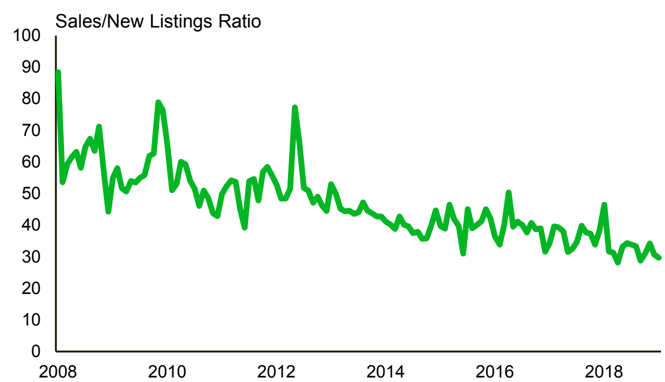
At the same time, providing a counter-balance to the winding down of large construction projects are expansions in the Voisey's Bay mine and the White Rose oil field, where work is expected to gear up. If there is a fly in the ointment, however, it is that the province's growth will continue to be highly dependent on volatile natural resource prices and the related capital projects.

**Chart 1: Employment Growth in Newfoundland & Labrador Has Recently Surprised on the Upside**



Source: Statistics Canada, TD Economics

**Chart 2: Newfoundland & Labrador's Sales/Listings Ratio is Persistently Low**



Source: CREA, TD Economics

**NFLD & Labrador Economic Forecasts**

[ Annual average % change, unless otherwise noted ]

| | 2018 | 2019 | 2020 |
|---|---|---|---|
| Real GDP | -0.3 | 1.2 | 1.1 |
| Nominal GDP | 2.4 | 3.3 | 3.4 |
| Employment | 0.4 | 1.5 | -0.6 |
| Unemployment Rate (%) | 13.8 | 12.6 | 13.1 |
| Housing Starts (000's) | 4.8 | 0.9 | 1.0 |
| Existing Home Prices | -1.4 | -2.1 | -0.8 |
| Home Sales | -5.1 | -3.2 | 2.0 |

Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics

# Provincial Economic Forecasts

| Provincial Economic Forecasts | Real GDP (% Chg.) | | | Nominal GDP (% Chg.) | | | Employment (% Chg.) | | | Unemployment Rate (average, %) | | | Housing Starts (Thousands) | | | Home Prices (% Chg.) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2018** | **2019** | **2020** | **2018** | **2019** | **2020** | **2018** | **2019** | **2020** | **2018** | **2019** | **2020** | **2018** | **2019** | **2020** |
| **National** | **1.8** | **1.2** | **1.8** | **3.6** | **3.2** | **4.0** | **1.3** | **1.5** | **0.6** | **5.8** | **5.9** | **5.9** | **214** | **197** | **195** | **-3.6** | **-1.2** | **2.8** |
| Newfoundland & Labrador | -0.3 | 1.2 | 1.1 | 2.4 | 3.3 | 3.4 | 0.4 | 1.5 | -0.6 | 13.8 | 12.6 | 13.1 | 4.8 | 0.9 | 1.0 | -1.4 | -2.1 | -0.8 |
| Prince Edward Island | 2.5 | 1.4 | 1.3 | 4.4 | 3.2 | 3.4 | 3.0 | -0.7 | 0.3 | 9.4 | 9.6 | 9.5 | 1.0 | 0.9 | 1.1 | 4.5 | 3.4 | 3.2 |
| Nova Scotia | 1.2 | 1.0 | 1.2 | 2.7 | 2.8 | 3.1 | 1.5 | 1.6 | -0.2 | 7.6 | 7.0 | 7.3 | 4.8 | 4.1 | 4.0 | 3.2 | 2.9 | 2.5 |
| New Brunswick | 0.9 | 0.5 | 0.8 | 1.9 | 2.4 | 3.0 | 0.3 | 0.1 | 0.0 | 8.0 | 8.3 | 8.3 | 2.3 | 1.6 | 1.9 | 5.9 | 4.0 | 4.2 |
| Québec | 2.0 | 1.5 | 1.5 | 3.6 | 3.5 | 3.6 | 0.9 | 1.3 | 0.5 | 5.4 | 5.4 | 5.6 | 46.8 | 46.1 | 43.2 | 5.3 | 4.5 | 3.0 |
| Ontario | 1.9 | 1.4 | 1.7 | 3.6 | 3.4 | 3.8 | 1.6 | 2.0 | 0.6 | 5.6 | 5.7 | 5.8 | 79.4 | 74.4 | 73.9 | -1.8 | 1.4 | 3.5 |
| Manitoba | 1.6 | 1.3 | 1.7 | 3.5 | 3.1 | 3.9 | 0.6 | 1.6 | 0.8 | 6.0 | 5.5 | 5.5 | 7.4 | 5.7 | 5.5 | 1.2 | 0.4 | 3.3 |
| Saskatchewan | 1.0 | 0.8 | 1.2 | 2.8 | 2.6 | 3.6 | 0.5 | 0.9 | 0.6 | 6.1 | 6.0 | 6.1 | 3.6 | 2.5 | 4.1 | -2.3 | -1.8 | -1.3 |
| Alberta | 2.1 | 0.5 | 2.4 | 3.6 | 2.2 | 5.1 | 1.9 | 0.1 | 1.3 | 6.6 | 7.1 | 6.8 | 26.2 | 22.9 | 25.7 | -2.4 | -3.5 | -0.6 |
| British Columbia | 2.0 | 1.4 | 2.0 | 4.0 | 3.4 | 4.2 | 1.1 | 2.3 | 0.6 | 4.7 | 4.6 | 4.7 | 40.9 | 38.2 | 34.9 | 0.9 | -5.1 | 2.2 |

Source: CREA, CMHC, Statistics Canada, TD Economics. Forecasts by TD Economics as at March 2019.